

RatingsDirect®

Summary:

Shrewsbury, Missouri; Appropriations; General Obligation

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Summary:

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Credit Profile

US\$1.8 mil COPs ser 2015 due 04/01/2030

Long Term Rating

AA-/Stable

New

US\$0.0 mil ICR ser 2015 due 01/01/2099

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Shrewsbury, Mo.'s series 2015 certificates of participation (COPs). We also assigned our 'AA' issuer credit rating (ICR) to the city. The rating on the series 2015 COPs is set one notch below the ICR rating, reflecting annual appropriation risk. The outlook is stable for both ratings.

The certificates are secured by rental payments, subject to annual appropriation, made by the city to Commerce Bank as lessor and bond trustee according to a lease purchase agreement. The city plans to make its rental payments from capital improvement sales tax revenues and from proceeds from a guaranteed energy contract. Management plans to use certificate proceeds to fund various improvements.

The 'AA' ICR reflects our assessment of the following factors for the city:

- Strong economy in terms of projected per capita income and market value per capita, enhanced by participation in the St. Louis metropolitan area economy;
- Strong management conditions with good financial policies;
- Adequate budgetary performance;
- Very strong budgetary flexibility;
- Very strong liquidity;
- Very weak debt and contingent liabilities position; and
- Adequate institutional framework.

Strong economy

In our opinion, Shrewsbury's economy is strong, with 2018 projected per capita effective buying income at 118% of the national average and per capita market value at \$77,230. Shrewsbury (estimated population 6,270) is located in south St. Louis County and borders the city of St. Louis. The city therefore benefits from its participation in the broad and diverse St. Louis metropolitan economy. The 2013 St. Louis County unemployment rate was 6.5%, on par with the state's 6.5% and below the nation's 7.4% rates. Assessed valuation (AV) decreased 8% to \$110.1 million from 2010 to 2014. Market value currently stands at \$484.2 million. The property tax base is diverse, with the 10 largest taxpayers accounting for 19% of AV.

Strong management conditions

We consider Shrewsbury's management conditions strong, with "good" financial practices under our Financial Management Assessment methodology, indicating our view that practices exist in most areas, although not all may be formalized or regularly minored by management. Highlights include the use of historical trend analysis in the budget process, monthly budget-to-actual reports to the board, a five-year capital improvement plan, and a formal reserve policy to maintain a minimum unassigned general fund balance of 25%.

Adequate budgetary performance

We view the city's budgetary performance as adequate overall. The city closed fiscal 2013 with surpluses after adjustments of \$202,000 (3.5% of expenditures) for the general fund and \$36,000 (0.5%) for total governmental funds. These results reflect adjustments for one-time capital spending. For fiscal 2014, management projects that the city will report a \$260,000 general fund shortfall. The city structured its 2015 budget with a \$239,000 shortfall. The largest revenue source is sales tax revenue, which provided 36% of fiscal 2013 general fund revenue. Management projects sales tax revenue will increase about \$650,000 per year due to the impending opening of a WalMart store in the city. Property taxes provided only 8.7% of general fund revenue for 2013.

Very strong budgetary flexibility

Budgetary flexibility is very strong. The city closed fiscal 2013 (Dec. 30) with a total available general fund balance of \$2.7 million, or 47% of adjusted general fund expenditures. Management projects that the city will draw down its general fund balance by up to \$500,000 over fiscal years 2014 and 2015. Based on these projections, we believe the city will maintain very strong budgetary flexibility in excess of 30% of expenditures.

Very strong liquidity

In our view, very strong liquidity supports the city's finances, with \$2 million of general fund cash at the end of fiscal 2013 equal to 29% of government fund expenditures and 233% of debt service. In addition, based on past issuance of lease and general obligation debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary. Management has confirmed that the city has no contingent liquidity risks from direct purchase, private placement, or variable-rate financial instruments.

Very weak debt and contingent liability profile

We believe the city's debt and contingent liability profile is very weak, with net direct debt at 101% of total governmental fund revenue and debt service carrying charges amounting to 12.5% of adjusted total governmental funds expenditures for fiscal 2013. Overall debt is a moderate 5.8% of estimated market value. Amortization is above average, with nearly 65% of the city's debt scheduled to mature within 10 years. Management plans to issue up to \$16 million of tax increment financing district sales tax revenue bonds in 2015 to repay an equal amount of developer's notes.

Shrewsbury's employees participate in the Missouri Local Government Employees Retirement System (LAGERS). In 2013, the city's annually required contribution to LAGERS was \$232,000, of which the city paid about \$220,000, or 95% of the annual pension cost (APC). The city's plan was 113% funded as of Feb. 28, 2013. The city does not subsidize retiree health care. In 2013, the city's APC was only 3.3% of adjusted total governmental fund expenditures.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our belief that the city will maintain very strong budgetary flexibility and liquidity in the next two years. We do not anticipate changing the rating because we believe management will make the budgetary adjustments it considers necessary to maintain at least adequate budgetary performance. However, if budgetary performance weakens, leading to a significant deterioration in budgetary flexibility, we could lower the rating. We believe that upward rating potential is limited by the city's very weak debt profile and our view that the city's economic indicators are unlikely to materially improve over the next two years.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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